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**Short-term or One-time Limited Duration Health Insurance Policies for Year Ended 2010**

**A Legislative Committee Report issued by  
R. Kevin Clinton**

**May 2011**

## **Office of Financial and Insurance Regulation**

Historically, government regulated insurance, securities, and financial institutions (banks, consumer finance companies and credit unions), separately. A Depression-era federal law known as the Glass Steagall Act (adopted in response to the bank failures following the 1929 stock market crash) specifically prohibited a bank from offering securities and insurance products or engaging in commercial banking. The federal Financial Services Modernization Act of 1999, also known as the Graham Leach Bliley Act (GLBA) repealed the Glass Steagall Act barriers and allowed financial services holding companies to engage in any activity financial in nature so long as it did not cause a safety or soundness issue to the overall financial system.

With changing complexities in insurance, banking and securities, the old-fashioned regulatory model could not keep pace with the marketplace. Michigan became the first state to coordinate the regulation of insurance, financial institutions and securities into one governmental agency, under a single Commissioner, consistent with financial services modernization. Effective April 2000, the Office of Financial and Insurance Services (OFIS) was created by executive order to consolidate the bureaus of Insurance, Financial Institutions, and the Securities Division of the former Corporations, Securities and Land Development Bureau. The creation of OFIS allowed Michigan regulators to become adept at interpreting and regulating complex services entities that did not exist a few years ago.

On April 16, 2011, Governor Rick Snyder appointed R. Kevin Clinton as commissioner of the Office of Financial and Insurance Regulation (OFIR), previously known as OFIS. As his first priority, Commissioner Clinton will make sure consumers are protected by ensuring financial institutions are sound and will lead the effort to eliminate burdensome regulations that are preventing the industry from growing.

Today, OFIR is responsible for the regulation of Blue Cross Blue Shield of Michigan (BCBSM), 25 health maintenance organizations (HMO), 114 state chartered and savings banks, approximately 171 domestic and 1,458 foreign insurance companies, 202 credit unions, 1,778 investment advisers, 1,969 securities broker-dealers, 6,172 consumer finance lenders, 194,835 insurance producers, and 131,194 securities agents, 9,214 investment advisor representatives, 3,958 mortgage licensees and registrants, 656 deferred presentment companies, and 2,387 other consumer finance-related entities. The OFIR licenses, registers, or charters these entities, conducts safety, soundness, and compliance examinations, and protects and educates Michigan consumers of financial services. Through adaptability and consumer communication, the Commissioner and staff of the OFIR strive to be the preeminent financial services regulator in the United States.

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## **Introduction**

Short-term or one-time limited duration health insurance policies are issued to a small portion of the health insurance market in Michigan, serving individuals who are without coverage for short durations of time. Individuals who are between jobs, students who no longer are covered under their parents' policies, and those who may be waiting to become eligible for benefits under a more comprehensive policy are the likely candidates to purchase short-term policies. The short-term policy is nonrenewable and is effective for 185 days or less in a calendar year. It does not cover preexisting conditions, is available with an immediate effective date, and does not offer underwriting unless optional benefits are offered.

Short-term or one-time limited duration policies are issued to groups and individuals. The group policies are traditionally written through associations whose members may have a need for the short-term coverage. For example, if a person joined a professional association after graduation from college, that association might offer the short-term policy to that member until the member could purchase an employer group policy. Individual coverage is typically obtained through producers.

In 1996 the Patient's Bill of Rights Act, PA 517 of 1996 (PA 517), was enacted with an effective date of October 1, 1997, adding section 2213b to the Michigan Insurance Code. Among other things, PA 517 established guaranteed renewability of health insurance coverage in both the individual and group markets. Public Act 517 created compliance issues for carriers offering short-term or one-time limited duration health insurance policies, as these policies are not renewable.

With the passage of PA 517, short-term or one-time limited duration health insurance policies could no longer be sold because they could not meet the renewability requirements of Michigan Compiled Laws (MCL) 500.2213b(1) and (2). Michigan Compiled Laws 500.2213b(1), requires health insurers to renew or continue in force a non-group hospital, medical, surgical and/or income disability insurance policy or certificate at the option of the individual. Michigan Compiled Laws 500.2213b(2), requires health insurers to renew or continue in force a group hospital, medical, surgical and/or income disability insurance policy or certificate at the option of the sponsor of the plan. To ameliorate the situation created by PA 517 for short-term or one-time limited duration health insurance carriers, the legislature enacted in PA 457 of 1998. This legislation created an exemption for short-term or limited duration health insurance policies. Michigan Compiled Laws 500.2213b(4) exempts a policy or certificate of no longer than six months or 185 days, from the renewability requirement of MCL 500.2213b(1) and (2).

A provision of PA 457 requires an annual report to be filed by the Commissioner of the Office of Financial and Insurance Regulation with the Senate and House of Representatives standing committees on insurance issues regarding short-term or one-time limited duration health insurance policies. The annual report requirement of MCL 500.2213b(7) is a compilation of the gross written premium for short-term or one-time limited duration policies or certificates issued in Michigan during the preceding calendar year. This report is issued to fulfill that requirement

and it allows the Commissioner and Legislature to monitor the growth of the issuance of these policies.

Michigan Compiled Laws 500.2213b(8) provides a ceiling of no more than 10% of a health insurer's collective gross written premium to be derived from writing short-term or one-time limited duration health insurance policies. This would be for all individual expense-incurred hospital, medical, or surgical policies or certificates issued or delivered in Michigan written directly by that insurer or through a corporation that owns or is owned by that insurer.

## **DATA COLLECTION**

Insurers are required to file financial statements and related data on an annual and quarterly basis with the Commissioner. In addition, insurers are required to file Form FIS 0322, Michigan Health Insurance Enrollment Premiums and Losses annually by March 1st. The data analyzed to produce this report was taken from a combination of the forms FIS 0322 and the annual financial statements filed by the insurers.

## **DATA ANALYSIS**

Exhibit A identifies each insurer, its policies in force, direct premium written on short-term or one-time limited duration policies, and the company's gross premium written for all applicable health insurance. It also calculates compliance with MCL 500.2213b(8), which limits an insurer's business on short-term or one-time limited duration policies to no more than 10% of the insurer's collective gross health insurance business.

Exhibit A shows that one company offered individual short-term or one-time limited duration health policies in 2010 that had not offered the coverage in 2009; five companies offered the coverage in the group market in 2010 that had not offered the coverage in 2009.

The individual market shows a high concentration of business with one company. It is noteworthy that the company reporting the highest number of policies in force is also the only new carrier within the individual market for this line of coverage. The group market for short-term or one-time limited duration health policies shows more activity than the individual market. With the exception of Time Insurance Company (holder of the largest market share of policies in force), there is a relatively level distribution of business among carriers.

Exhibit B illustrates the trend of the number of policies in force in the short-term or one-time limited duration market over the past 10 years. The number of policies in force in Michigan peaked in 2004 at 7,138, declined to 3,054 in 2005, and was fairly constant in 2006 and 2007 at 2,460 and 2,456 policies, respectively. Thirty-seven fewer policies were written in 2008, with 2,419 short-term or one-time limited duration policies written. The most recent data reveals that 2,034 policies were in force in 2010, the lowest number since 2001.

Exhibits C, D, and E, illustrate aggregate premium data for the years 2000 to 2010 relative to carriers offering short-term or one-time limited duration policies in Michigan. The data demonstrates that direct written premium for short-term or one-time limited duration policies is

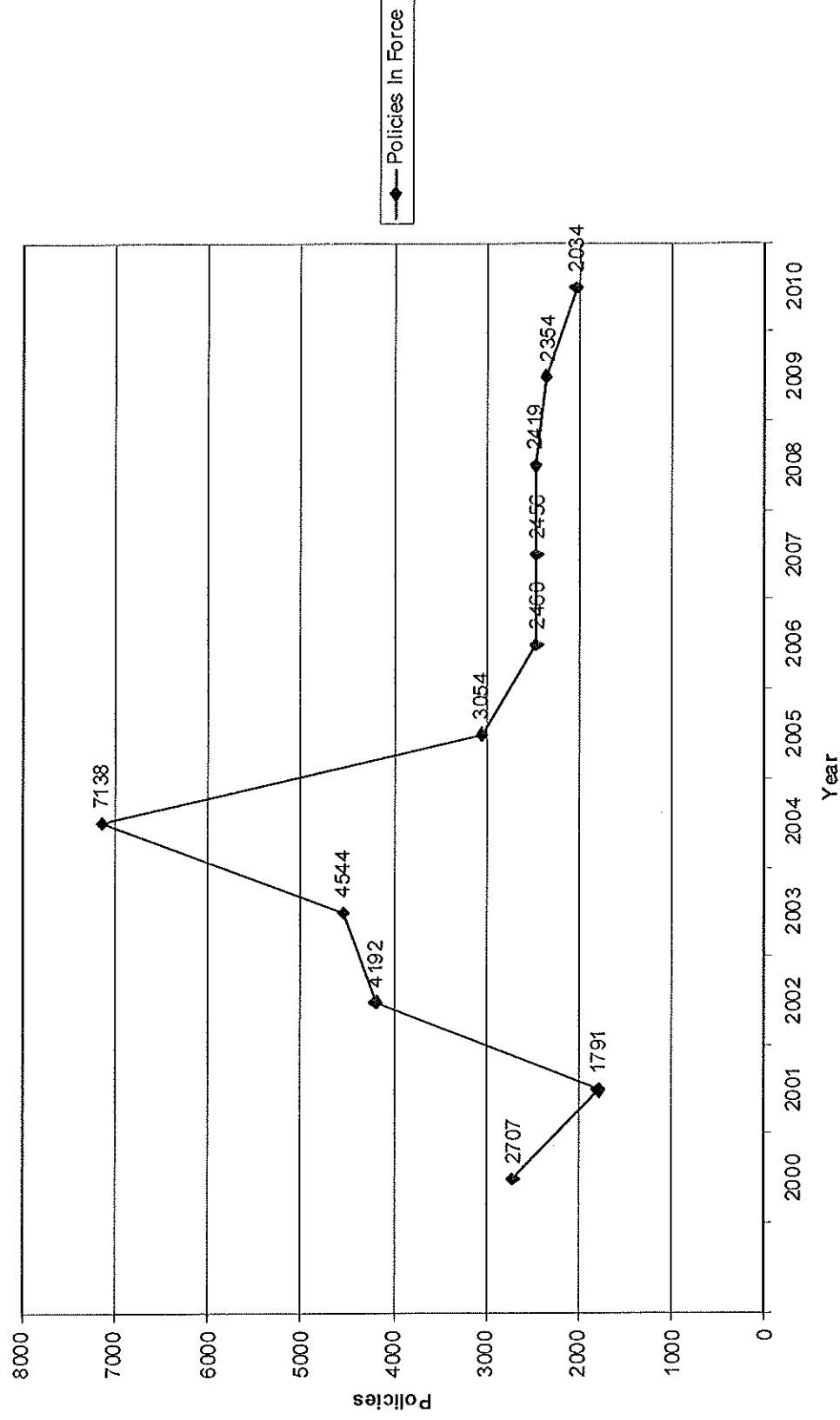
the highest it has been since 2006, even though 2010 saw the fewest policies of this type sold since 2001. Exhibit D provides a graphic of the data relative to individual, gross written premium of the carriers that market short-term or one-time limited duration policies in Michigan, against which the 10% compliance calculation required under MCL 500.2213b(8) is based. The gross written premium exhibit shows that until 2010, gross written premium had remained relatively level. The 2010 data reveals a significant decline in individual gross written premium in Michigan. The final exhibit, Exhibit E, provides a side-by-side comparison of direct premiums attributable to the short-term or one-time limited duration market and the gross premiums of the carriers that write the coverage. This chart provides a visual depiction of the data, showing how little of the overall market is represented by short-term or one-time limited duration coverage.

EXHIBIT A

Data for Short-Term/One-Time Limited Duration Health Insurance Policies									
Insurer	Policies in Force		Direct Written Premium		Gross Written Premium		Compliance Calculation		
	2009	2010	2009	2010	2009	2010	2009	2010	
<b>Individual Business</b>									
American Comm. Mutual Ins. Co.	605	0	\$810,321	\$269,227	\$77,453,526	\$37,434,923	1%		.7%
Bankers Fidelity Life Ins. Co.		375		\$152,029		\$722,236			21%
Continental General Ins. Co.	7	5	\$12,646	\$8,794	\$5,341,142	\$3,430,074	.2%		.2%
Health Care Service Corp.	2	3	\$4,596	\$10,812	\$1,505,269	\$1,505,269	.3%		.7%
Independence American Ins. Co.	1	4	\$1,844	\$2,388	\$178,220	\$169,151	1%		1.4%
Standard Life & Accident Ins. Co.	8	6	\$2,582	\$2,206	\$4,411,655	\$4,836,180	Negligible		Negligible
<b>Group Business</b>									
Insurer	Policies in Force		Direct Written Premium		Gross Written Premium		Compliance Calculation		
	2009	2010	2009	2010	2009	2010	2009	2010	
Ace American Insurance Co.		8		\$38,692		\$7,756,353			.4%
American United Life Insurance Co.		1		\$351,681		\$1,898,215			18.5%
Celtic Insurance Company	110	107	\$148,399	\$146,387	\$3,264,171	\$5,116,543	4.5%		2.9%
Companion Life Ins. Co.	1	1	\$217	\$217	\$15,107,003	\$15,107,003	Negligible		Negligible
Fidelity Security Life Ins. Co.		393		\$672		\$18,206,393			Negligible
Golden Rule Ins. Co	1	1	\$641,983	\$923,874	\$47,801,856	\$63,516,333	1.3%		1.4%
HCC Life Insurance Co	35	194	\$40,884	\$63,984	\$14,825,957	\$13,011,401	.3%		.5%
John Alden Life Insurance Co.	282	255	\$364,461	\$464,718	\$31,753,411	\$30,072,286	1.1%		1.5%
Markel Insurance Co.	2	3	\$8,046	\$9,431	\$436,893	\$461,784	1.8%		2%
Standard Life & Accident Ins. Co.	5	6	\$1,639	\$1,687	\$4,411,655	\$4,411,655	Negligible		Negligible
Standard Security Life Ins. Co.	1	1	\$125,734	\$161,021	\$2,262,086	\$2,885,411	5.6%		5.5%
Starr Indemnity & Liability Co.		194		\$80,908		\$491,333	N/A		16%
Time Insurance Company (former Fortis)									
United States Fire Ins. Co.	1,253	1066	\$1,659,161	\$1,654,682	\$51,814,695	\$53,080,613	3.2%		3.1%
		1		\$19,867		\$1,394,514	N/A		1.4%

## EXHIBIT B

Policies In Force



Source data from FIS 0322 and carrier financial statements



EXHIBIT C

Direct Written Premium 2000 - 2010

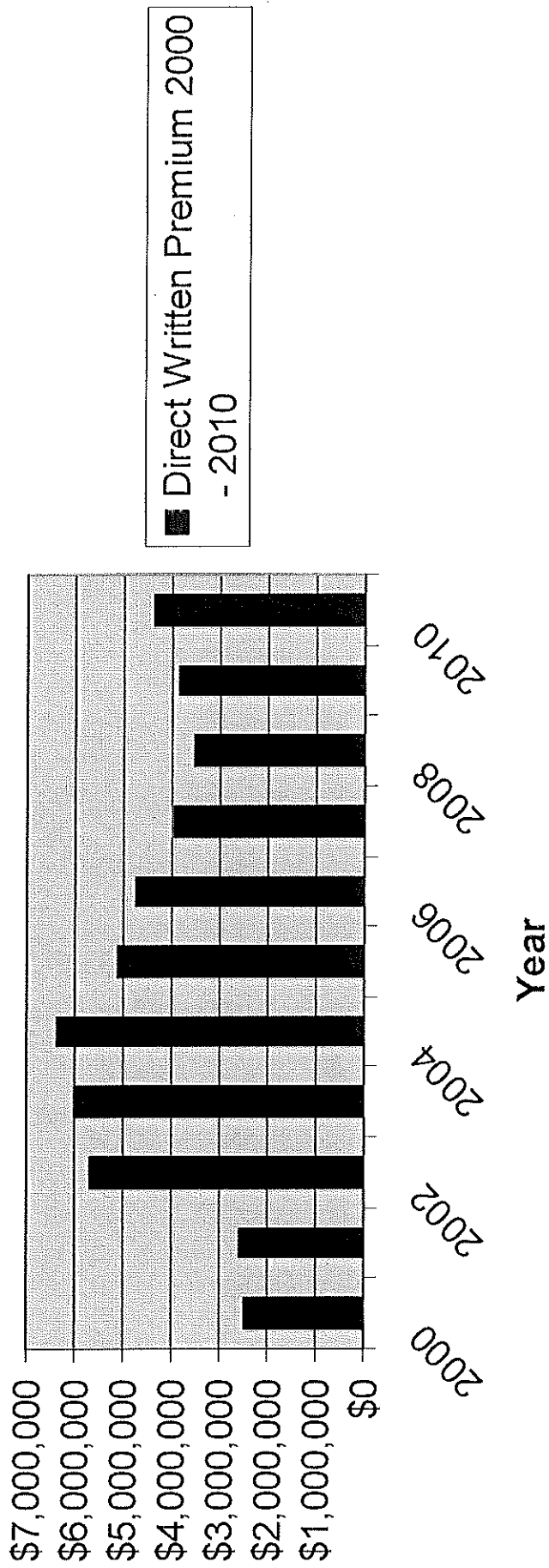
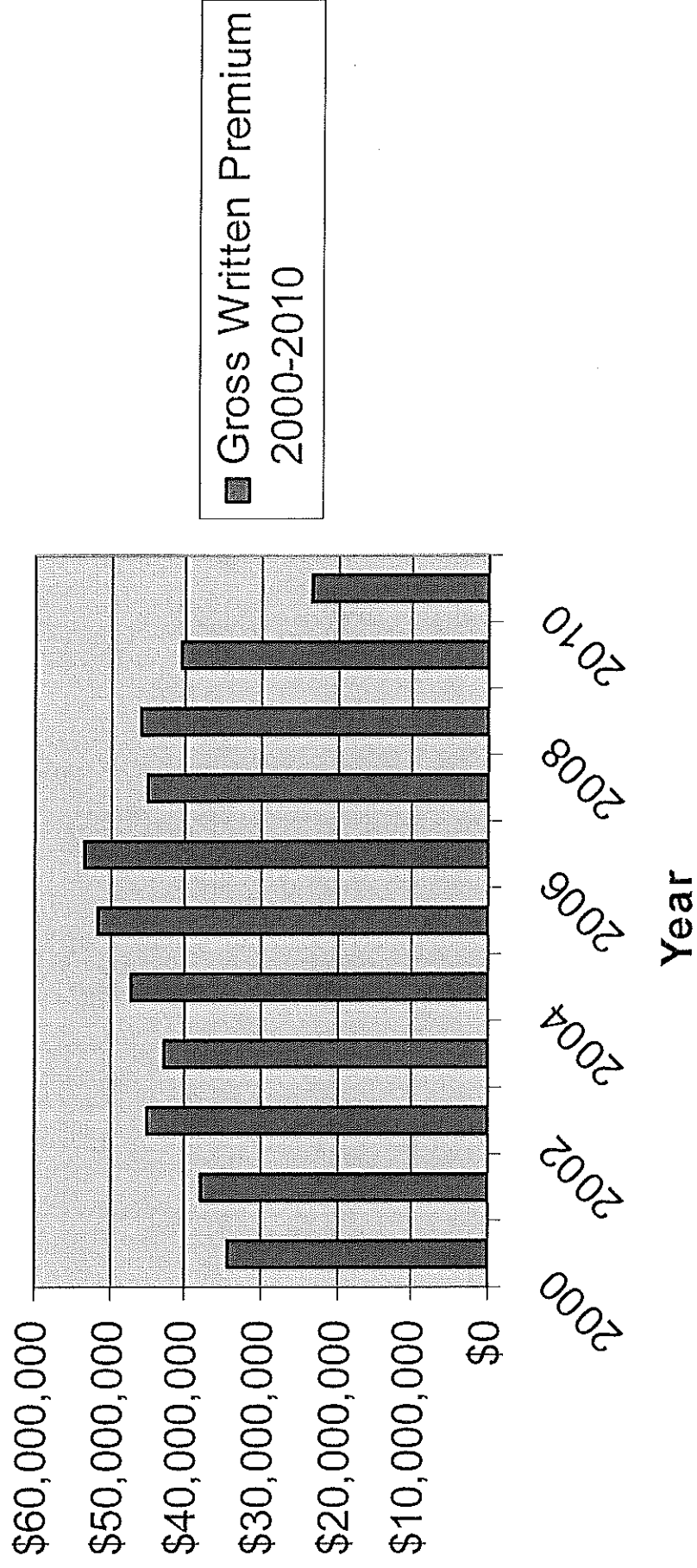


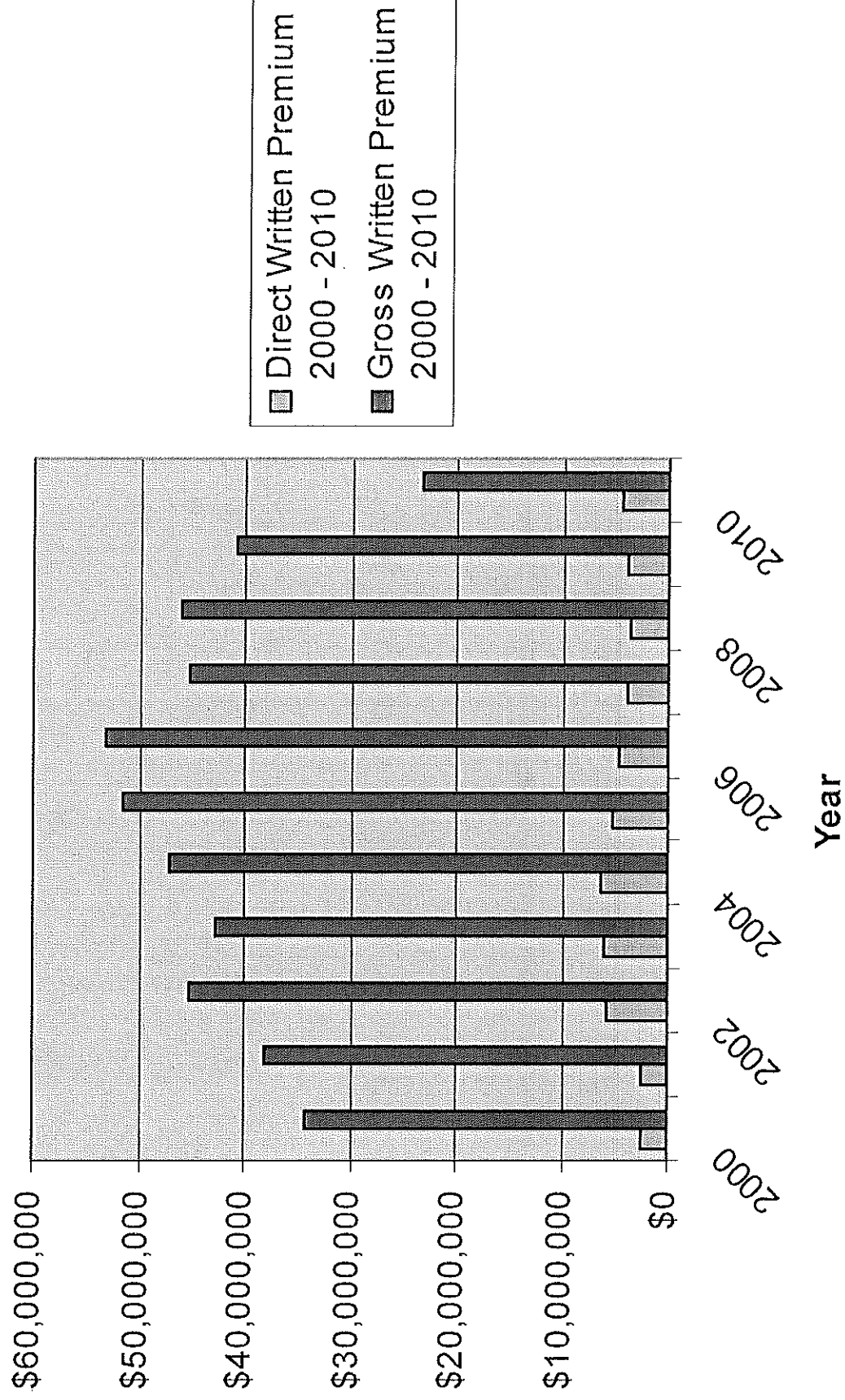
EXHIBIT D

Gross Written Premium 2000-2010



# EXHIBIT E

## Direct Written & Gross Written Comparison Chart



## CONCLUSIONS

The Commissioner finds that:

1. The short-term or one-time limited duration market continues to be a small portion of the overall health care insurance market in Michigan. The coverage is marketed by only a few insurers with six companies writing in the individual market and fourteen writing in the group market.
2. Six companies offered short-term or one-time limited duration policies in 2010 that had not offered the coverage in 2009, yet, 2010 had the fewest policies issued of this type since 2001.
3. The direct premiums written for this line of coverage have increased while the policies in force continue to decline. The overall premium written in the individual market for carriers in the short-term or one-time limited duration market has experienced a noticeable decline.
4. The short-term or one-time limited duration market is a niche market providing coverage for a specified set of circumstances.
5. Carriers appear to favor the group market for the short-term or one-time limited duration policies. The group market for short-term or one-time limited duration represents 80.6% of the market while individual coverage represents 19.4% of the total market, based on policies in force.
6. Three companies writing short-term or one-time limited duration coverage in Michigan in 2010 were not in compliance with the requirements under MCL 500.2213b(8).



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Financial and Insurance Regulation

6-2-11

Date